DATA DISPATCH

Credit union net charge-off ratio surges to decade high

Friday, February 16, 2024 5:40 AM ET

By Robert Clark
Market Intelligence

US credit unions are grappling with a rapidly rising level of problem loans, in a similar fashion to their banking brethren.

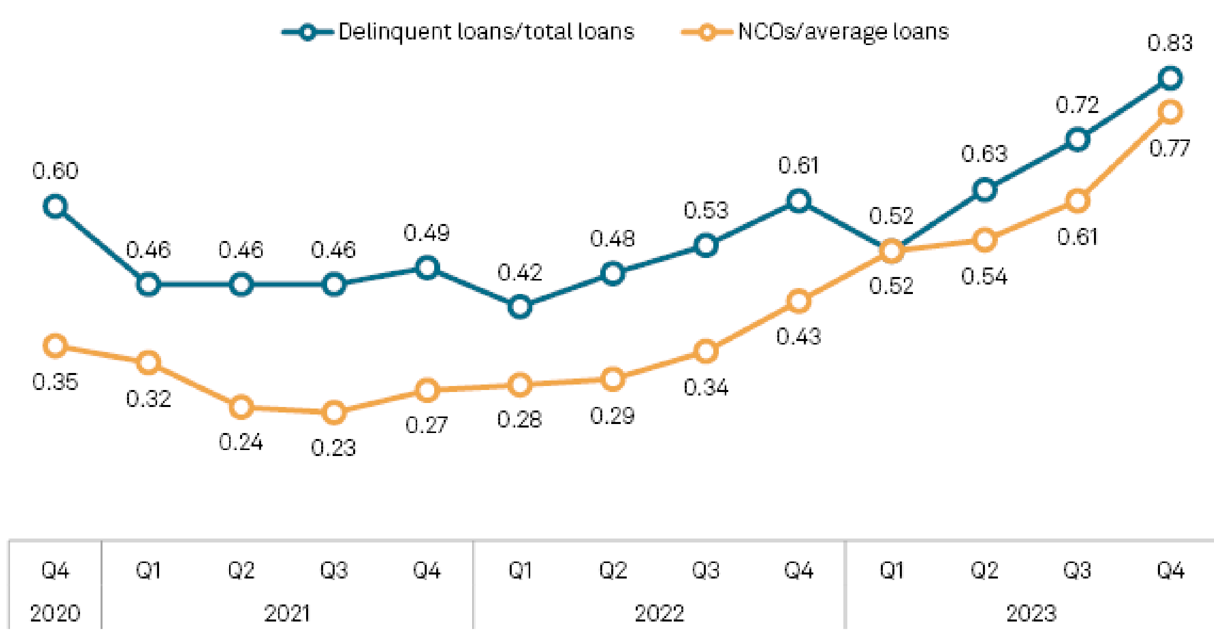
In contrast to banks, however, the credit union industry reported slower loan growth in the fourth quarter of 2023, according to S&P Global Market Intelligence data.

Credit quality trends

The net charge-off (NCO) ratio for credit unions was 0.77% in the fourth quarter of 2023, 16 basis points higher sequentially and representing the peak since the first quarter of 2012. The majority of the $670.9 million quarterly jump in NCOs was from used vehicles and unsecured credit cards. NCOs for used vehicles were up 36.1%, or $219.4 million. Unsecured credit card NCOs increased 30.5%, or $222.7 million.

Among the 20 largest credit unions by total assets at year-end 2023, Tysons, Va.-based Pentagon FCU had the highest ratio of NCOs to average loans of 3.19%, as well as the highest quarter-over-quarter increase of 72 basis points. The used vehicle segment fueled the increase.

Delinquent loan, NCO ratios at US credit unions (%)



Data compiled Feb. 10, 2024.
NCOs = net charge-offs; delinquent loans = total delinquent loans greater than or equal to 60 days.
Analysis includes all US credit unions except corporate credit unions.
Data based on regulatory filings.
Source: S&P Global Market Intelligence.

Even with escalating NCOs, credit unions reported a spike in loans that are delinquent for at least 60 days. The delinquent loan ratio was 0.83%, as of Dec. 31, 2023, up 11 basis points from the previous quarter and representing a tie for the highest ratio in the last nine years. Used vehicle loans comprised 27.2% of total delinquent loans and were responsible for 23.4% of the quarterly increase.

In the top-20 group, Raleigh, NC-based State Employees CU had the highest delinquency ratio at 2.25%. North Liberty, Iowa-based GreenState CU experienced the most dramatic increase, at 55 basis points.

Another metric to monitor is loans that are delinquent for one to two months, which is not part of the delinquency ratio calculation. That balance ramped up 42.8% quarter over quarter to $17.63 billion at the end of 2023. Used vehicle loans represented about one-third of those earliest-stage delinquencies.

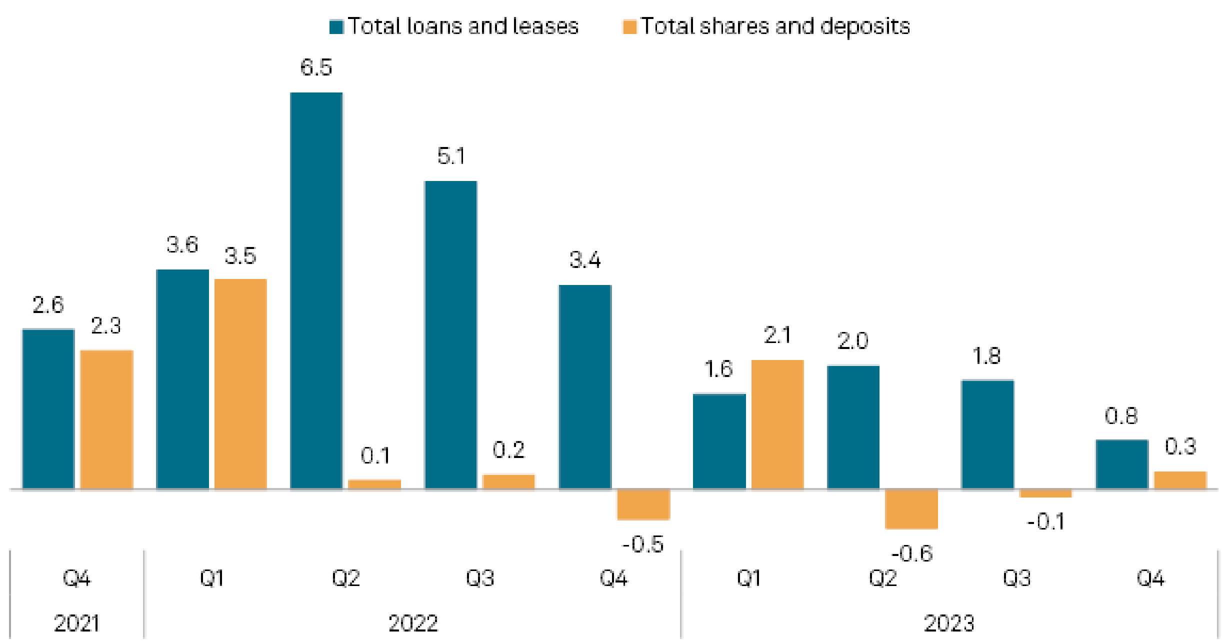
Balance sheet changes

Total loans and leases across the industry rose just 0.8% from Sept. 30, 2023, which was the most diminutive growth rate since the first quarter of 2021. Used vehicle loans declined 0.5%, ending a streak of 50 consecutive quarterly increases. Credit unions also cut their balances of new vehicle loans by 0.7%, discontinuing a 10-quarter upward trend. Areas of growth included junior-lien one- to four-family, member business and credit card.

A handful of the largest credit unions, led by Tukwila, Wash.-based Boeing Employees' CU, attained more than 2% loan growth. Boeing trimmed its used vehicle lending portfolio while adding to its book of one- to four-family real estate loans.

On the other hand, loans at GreenState were down 3.3% quarter over quarter. The credit union slashed its balances for used vehicle loans and new vehicle loans 14.3% and 10.2%, respectively.

QOQ balance sheet change at US credit unions (%)



Data compiled Feb. 10, 2024.
Analysis includes all US credit unions except corporate credit unions.
Data based on regulatory filings.
Source: S&P Global Market Intelligence.

Following two quarters of contraction, credit union total shares and deposits were up 0.3% in the fourth quarter of 2023. The growth was from share certificates with a maturity of less than one year going up 15.4% to $385.11 billion.

Despite reporting 3.6% deposit growth, GreenState and San Jose, Calif.-based First Technology FCU still have relatively high ratios of loans to deposits: 105% for the former and 98% for the latter. The industry aggregate was 85% at Dec. 31, 2023.

San Diego County CU was at the other end of the spectrum. The San Diego-based institution decreased its deposits by 3.3% quarter over quarter, but its loans-to-deposits ratio of 72% was the lowest among the 20 largest credit unions.

– Download a template for a credit union financial performance report.
– Read some of the day's top news and insights from S&P Global Market Intelligence.

Balance sheet growth and credit quality trends at largest US credit unions, Q4 2023

Ranked by total assets

			QOQ change			
Company	**City, state**	**Total assets ($B)**	**Total shares and deposits (%)**	**Total loans and leases (%)**	**NCOs/ average loans (bps)**	**Delinquent loans/total loans (bps)**
Navy FCU	Vienna, VA	170.80	-0.7	1.5	54	19
State Employees CU	Raleigh, NC	54.58	0.0	1.8	45	30
Pentagon FCU	Tysons, VA	34.82	2.1	-1.3	72	-33
Boeing Employees' CU	Tukwila, WA	29.87	0.4	2.7	7	4
SchoolsFirst FCU	Tustin, CA	29.22	0.3	2.3	18	11
Golden 1 CU	Sacramento, CA	21.13	-0.6	0.6	18	13
America First FCU	Riverdale, UT	19.35	1.0	2.2	15	14
Alliant CU	Chicago, IL	18.47	1.5	-1.6	19	14
Mountain America FCU	Sandy, UT	18.40	2.2	0.4	32	17
Randolph-Brooks FCU	Live Oak, TX	18.03	-0.3	1.6	10	12
Suncoast CU	Tampa, FL	17.41	2.1	0.5	25	6
First Technology FCU	San Jose, CA	16.85	3.6	-1.2	25	6
VyStar CU	Jacksonville, FL	13.58	-3.0	-0.5	20	9
San Diego County CU	San Diego, CA	13.48	-3.3	-1.2	1	9
Lake Michigan CU	Caledonia, MI	13.37	3.5	2.5	-1	7
Security Service FCU	San Antonio, TX	13.36	-0.2	0.7	7	22
Bethpage FCU	Bethpage, NY	12.86	-2.2	2.4	-6	48
Digital FCU	Marlborough, MA	12.08	-0.3	0.3	7	13
Global FCU	Anchorage, AK	11.90	-0.2	-1.1	1	9
GreenState CU	North Liberty, IA	11.35	3.6	-3.3	-11	55
Industry aggregate			**0.3**	**0.8**	**16**	**11**

Data compiled Feb. 10, 2024.
NCOs = net charge-offs; delinquent loans = total delinquent loans greater than or equal to 60 days.
Analysis includes all US credit unions except corporate credit unions.
Data based on regulatory filings as of Dec. 31, 2023.
Source: S&P Global Market Intelligence.

This article was published by S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global.